BRIEFING PAPER

Similar, Yet Different!

An Indian Perspective on New Development Bank & Asian Infrastructure Investment Bank

BRICS and its Emergence as a Global South Group

BRICS stand for Brazil, Russia, India, China and South Africa. It is a grouping of emerging economies. The term was first coined by Goldman Sachs where they highlighted the importance of emerging developign economies in a report in 2001.

The foreign ministers of Brazil, Russia, India and China met and formally announced the formation of the regional grouping as BRIC during the UN General Assembly session in 2006. South Africa was invited to join the original grouping in 2010 and it came to exist as BRICS. It is perceived that given the size and growth of the South African economy and its importance in the region, the BRICS would be strengthened by the inclusion in 2010.

The BRIC countries had their first meeting of Heads of States in Russia in 2009. Since then the group has organised yearly summits. Apart from the summits, the members have been formally meeting at the sidelines of the important global summits and meetings. For example, the BRICS members have met on national security issues with the foreign ministers at the yearly UNGA meetings, finance ministers and central bank governors met regularly at the sidelines of the IMF and World Bank meetings, and also on the sidelines of G20 finance ministers' meetings. Apart from these regular meetings there are working group meetings on the issues of agriculture, innovation, science and technology cooperation, healthcare, trade and monopoly related issues.

The group has gained substantial importance in a very short span of time. The most assertive members of the group have been China, Russia and India. The other two members namely the South Africa and Brazil play second fiddle in the group.

Mandate of BRICS

The BRICS group focussed mostly on the commonly agreed financial and international issues. During the period 2009-2014 for foreign policy issues, the focus has been on Syria, Libya, and Afghanistan and on the Iranian nuclear programmes. Of these the most important has been the Syrian crisis, where China and Russia played an important role at the UNSC using veto powers to stall sanctions on the war torn country. The unanimous decision among the BRICS members has been to promote and identify mechanisms of dialogue to resolve the crisis which was adopted at 2012 Summit.

On financial issues, the aim has been to reform the IMF and World Bank. In this regard, the BRICS Interbank Cooperation Mechanism has been established would help to provide credit to the countries in their local currency. This would address the exchange rates fluctuations uncertainties for the recipient countries. The most important achievement of the BRICS has been to constitute a development bank to support the infrastructure and sustainable development of the developing countries across the world, though the creation of the New Development Bank (NDB) in 2014.

BRICS has been an informal group and has not engaged in global negotiations as a formal entity. However most of the member countries of BRICS are existing members of the regional groupings which engage with the global negotiations like the WTO , IMF and World Bank meetings as groups.. As far as environmental negotiations are concerned, four members namely Brazil, South Africa, China and India formed a separate group under the UNFCCC, and they often take positions which are opposed to the one taken by Russia. This however has not limited the cooperation of the countries under the BRICS on other developmental issues.

BRICS and the Formation of the New Development Bank (NDB)

In order to promote south-south cooperation and also address the current gaps in development financing by the existing MDBs, the BRICS nations agreed to start a new development bank of their own at the BRICS Summit in 2012 at New Delhi. The Bank however formally came to be known as New Development Bank (NDB) and it came into existence at the BRCS Summit at Fortaleza on 2014. The NDB opened its regular business one year later in 2015 with the establishment of its headquarter at Beijing and first President as Mr K V Kamath, who was the head of ICICI Bank of India.

During the time of its establishment, the main purposes identified are (a) mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries and (b) complementing the existing efforts of multilateral and regional financial institutions for global growth and development. In order to meet these objectives, the BRICS nations observed that there is a need to support the development requirements and aspirations of developing countries in a sustainable development framework—an area where the existing MDBs have only partially achieved success. The NDB would seek to play supportive role and would not be competing with the other banks.

The funding to be disbursed by the NDB is for infrastructure and sustainable development projects in the BRICS, other developing countries and emerging economies. Primarily these would involve the 5 BRICS member countries, and in future would extend to least developed countries, big and industrialised developing economies of the world.

Global South – The Emergence of New Financial Institutions

The Asian region has experienced emergence of new MDBs over last few years. For many years, the Asian Development Bank was the only development bank in the region and has been dominated by the Japanese owing to the number of votes it has as compared to other members. However, the newly constituted NDB in 2014 has two key Asian members, India and China. The Asian Infrastructure Investment Bank (AIIB) led and initiated by China in 2015, and with a mandate to have at minimum 70% of shares allocated to Asian countries is sure to become another major player to support infrastructure development activities of the region as well as global south. The AIIB and NDB are two separate entities in their operations and constitution even though there are overlaps in memberships of the two banks.

The NDB is an MDB set up by the BRICS nations with all the five member countries as its founding members having equal voting rights and shares in the bank. The NDB was constituted to have an initial subscribed capital of $50 billion and an authorised capital of 100 billion. At NDB all members have equal shares and equal votes. A two-third majority is required for any decisions to be undertaken in the NDB. NDB currently is lending to BRICS countries only.

AIIB is dominated by the Chinese, along 86 approved members. The AIIB is specifically supporting projects in the Asian region. AIIB has a capital of $100 billion, of which 20 percent is actual capital deposited to the bank by the prospective founding members. AIIB follows a voting rule proportion to the contribution of the member countries the votes for each member states differ. Thus, China has the highest voting share, followed by other countries. In terms of regional presence, Asia has almost three-quarter of voting shares. AIIB has shares based voting powers, with the three largest countries being China is largest shareholder of

AIIB with 26.06% voting shares. India with 7.5% vote share is second largest shareholder followed by Russia, Germany and South Korea.

It was announced by the NDB Vice President Zhu Xian that NDB and AIIB would jointly fund projects that require finance, although no more information was disclosed as to how this would work.

Concerns regarding NDB and AIIB

It has been identified by the experts that both NDB and AIIB have not got proven, tested environmental and social safeguards norms. In the Agreement of Association for both the banks, the priorities have been to bridge the existing infrastructure support and promote sustainable development. This will mean supporting railways, power sector development, transmission and distribution, and transport and roadways expansion in a sustainable manner. However in reality, without proper environmental and social safeguards, this funding could impact the communities adversely and would not meet the established sustainable benchmarks. Communities may face threats in terms of displacements, ecosystem destruction, and loss of livelihoods, and severe curtailment of basic rights to life, issues which have recurred for decade due to projects funded by other MDBs. There is no particular reason to believe that the AIIB or NDB will behave differently, and thus communities in India need to be vigilant and watch out for and monitor closely the projects funded through these two banks. AIIB has already proposed to invest as a co-financier in the tainted Amaravati Capital City Project In India which ia already under scrutinty by Inspection Panel as a complaint was filed by the affected community(World Bank is the lead Financier).

The AIIB and NDB are adopting a co-financing approach under which the banks co-finance projects which are already approved by the existing MDBs. By this arrangement, the AIIB and NDB follow the safeguards of the existing MDBs. But this is a flawed approach as (a) the existing safeguards and standards of the MDBs are also weak and have proved to impact the communities negatively in India on many occasions previously and (b) it does not show the seriousness of the two banks to establish a robust and community oriented set of safeguards and standards for their loans. Thus, even if the new Asian MDBs talks about being pro-development, they seem to be following the same trajectory of their already established counterparts in the country.

Inadequacies of the Current Safeguard Policies:

During 2016, both NDB and AIIB finalised their environmental and social safeguards guidelines. Both the banks said that these safeguards and standards would be based on the existing best practices of the other MDBs. However this is not evident in the policies developed, which seem to weaken standards fought for over decades by activists and communities.

Civil society had urged the banks to constitute robust frameworks which would ensure no negative environmental and social impact on affected communities, and/or ensure adequate treatment, compensation and redressal. They called for systems that would respect local traditions, knowledge and culture of the communities—especially indigenous people and cultural minorities. Furthermore, the safeguards and standards should protect the marginalised and most vulnerable people of the region and secure their rights. None of these demands were met under the finalised documents of the AIIB and NDB, and while AIIB had a restrictive, rushed and problematic consultation on its policy framework, the NDB did not consult civil society at all on its ESF. Moreover both banks have started loaning even before they have developed clear grievance redressal mechanisms or independent oversight procedures. Communities should make their voices heard about their dissatisfaction with these weak standards and their likely negative impact in India and across the world.

Inspite of these policies not being robust and some not even being in place, it has not stopped these institutions from funding the projects. This could have serious reppurcussions for the communities impacted by these projects. AIIB and NDB have also financed projects as co-financiers. In a co-financed project the AIIB or the NDB simply adopts the safeguards and standards of the existing MDBs. Thus it passes the buck of assessment in terms of safeguards and standards to the existing guidelines. Given that these guidelines are weak in addressing the concerns of the communities, the AIIB and NDB funded projects in India fail to be different from other MDB projects. This would mean the communities could be subjected to threats of losing livelihoods, basic rights, and displacement from their own land, and other coercive measures which pose threats to their existence. While the direct effect of AIIB and NDB funded projects are yet to be experience, but recently the Tata Mundra Thermal power project funded by both World Bank and ADB caused huge loss of livelihoods for more than 10,000 fisherfolk communities by destroying the ecosystem of the region. It was argued that all the safeguards and standards were met in this project but still there were huge losses. Thus the dangers involved and potential negative impacts are clear, and communities and civil society needs to watch carefully as more loans come to India from both new banks.

With both NDB and AIIB financing infrastructure and sustainable development projects like roadways, railways, power sector infrastructure, and establishment of power plants some of which can have serious environmental and social concerns like displacement of people, loss of livelioods, land acquisition and destruction of ecosystem in the region proposed, it is essential that these institutions focus on making robust safegaurd policies with their applicability across all funding modalities.With both NDB and AIIB seeking more and more collaborations with other financial institutions and shelling out funds for projects, it is time that we push for these institutions to establish robust policies safgaurding the rights of communities which are at stake in the current scheme of things.

New Development Bank: Projects in India

New Development Bank (NDB), formerly called the BRICS Bank, "is a multilateral development bank established by Brazil, Russia, India, China and South Africa with the objective of financing infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the efforts of multilateral and regional financial institutions toward global growth and development." (Official website) The treaty was signed in July 2014 and came in force in July 2015. It funds both the public and private projects. It was promoted as an alternative to the World Bank, which has traditionally been controlled by the United States, Europe and Japan.

The initial authorized capital of the bank is $100 billion. Currently, the shareholding and voting rights are divided equally amongst all the founding members. The bank is headquartered in Shanghai, China.

Shares Distribution and Voting Powers

Country	Number Of Shares	Share Holding (% Of Total)	Voting Rights (% Of Total)
BRAZIL	100,000	20	20
RUSSIA	100,000	20	20
INDIA	100,000	20	20
CHINA	100,000	20	20
SOUTH AFRICA	100,000	20	20
UNALLOCATED SHARES	500,000	–	–
GRAND TOTAL	1000,000	100	100

The total amount of the Bank's investment portfolio as of June 2018 has reached over USD 5.1 billion. In 2018 alone, the Bank has already approved projects to the tune of USD 1.7 billion.

In India, NDB's investments have gone in the sectors of agriculture, irrigation, water and sanitation, rural development, road and renewable energy. The loans have gone to the states of Rajasthan and Madhya Pradesh, and Canara Bank (being a financial Intermediary) with the sovereign guarantee by the Government of India. Loans have been in the range of USD 250 million to USD 470 million with the total investment close to US$ 1.4 billon. In its recently concluded 3rd Annual Meeting the Board of Governers approved another rural roads project in Bihar, India. The loan amount for the Bihar Rural Roads Project is USD 350 million.

Collaboration with other Financial Institutions:

The focus of NDB in 2018 has been on developing partnerships with other financial institutions. Collaborations and co-financing seem to be the priority right now. Recently, NDB and the State Bank of India (SBI) signed Memorandum of Understanding to promote and establish general cooperation. The Memorandum provides a framework for cooperation in a number of areas, including loan services, settlement agency business, cash management, personal finance and others. Also, Inter-American Development Bank (IDB), IDB Invest and the NDB agreed to collaborate on areas of common interest and general cooperation. The step was taken towards prioritizing collaboration with multilateral institutions. NDB is seeing this as an opportunity for co-financing development and infrastructure projects in Brazil, Latin America and the Caribbean. NDB also signed Memorandum of Understanding on General Cooperation with Development Bank of Southern Africa (DBSA).

NDB and International Finance Corporation (IFC) also signed Accession Agreement to Amended and Restated Master Cooperation Agreement between IFC and international financial institutions. Master Cooperation Agreement sets forth principles to establish understanding of the process and allocation of responsibilities in connection to promoting co-financing. The other Multilateral Financial Institutions with which NDB has mutual understanding are Financial Fund for the Development of the River Plate Basin, FONPLATA, European Bank for Reconstruction and Development, European Investment Bank, Asian Infrastructure Investment Bank, Eurasian Development Bank, International Investment Bank, Development Bank of Latin America – CAF, World Bank Group and Asian Development Bank.

This also raises concerns that come along with co-financing model. There will be questions of obligations and liability of co- financer. This model should not serve as an opportunity for co-financiers to absolve themselves of their role of implementing and monitoring their environmental and social policies and due diligence leaving that role alone to the lead financer.

Conclusion:

Although the NDB has already begun financing projects, it is still in the process of developing the internal rules that will govern project selection and implementation. In August 2017, the Bank disclosed a set of policies, including an Interim Information Disclosure Policy and an Environment and Social Framework. Despite repeated calls to engage with civil society, these important policies were developed without civil society input or consultation. While the framework sets out laudable principles, it lacks meaningful requirements to ensure that projects are sustainable and do not harm communities or the environment. There are also concerns that the framework does not provide affected communities sufficient access to information and input into NDB-financed activities or the ability to hold the bank accountable.

A Quick Look at the Potentially Problematic Project of NDB - Madhya Pradesh Multi Village Water Supply Project India

The objective of the Project is to provide piped drinking water to rural areas of Madhya Pradesh and to help the state's water program to achieve 100% household water connections. The total cost of the Project is estimated to be USD 670 million. NDB will finance the Project with a long term loan of USD 470 million, accounting for 70% of the total Project cost. The Government of Madhya Pradesh will provide the counterpart funding of USD 200.0 million.

Key concerns surrounding the project: Privatization of Water Resources

The mentioned project has been taken up by the implementing agency, Madhya Pradesh Jal Nigam Maryadit. Jal Nigam is already criticized by concerned communities for their intention of privatizing water resources. The objective of the Jal Nigam includes supply of treated water through pipes to village households throughout the year. It also includes preparing and implementing water and sanitation schemes for rural areas in the whole state.

Targeting tap water supply of 70 liters per day per person in rural areas, they have begun attracting industrialists, commercial operators, developers and financial institutions for construction and operation of group drinking water supply schemes. They are also looking for raising funds from national and international financial institutions for the privately operated group water supply schemes. For the financial assistance the Nigam has approached NABARD and other government agencies. Apart from New Development Bank, loans are also sought from the World Bank, Japan International Cooperation Agency and Asian Infrastructure Investment Bank.

Based on Public-Private-Partnership [PPP] model, Jal Nigam plans to recover operation and maintenance cost of drinking water supply from the village users to be handed over to private companies. This is highly dangerous game of the Government and Jal Nigam, which is headed by the Chief Minister of the state, to sell the state's water resources and supply mechanisms to private players and the RFQs [request for qualification] published by the Jal Nigam show that the water supply schemes would be handed over for operation and maintenance to the private operators for 10 years. Another cause of concern is that they would use the existing water resources but does not include developing new sources for water supply. This would also possibly mean the communities could be subjected to threats of losing rights to water resources, displacement from their own land, and other coercive measures which pose threats to their existence.

As of 2016-17, Jal Nigam has approved 100 group water supply schemes. It is claimed that this would benefit 1 crore 47 lakh population of 13,316 villages. Despite the fact that there are several examples of disastrous PPP projects in water supply having failed to perform across the country, 5 approved water supply schemes have been sent to the Finance Ministry for Viability Gap Funding as PPP projects.

The existing rural water supply schemes proposed and operated by the state's Public Health Engineering Department [PHED] would be handed over to Jal Nigam with mutual agreement of the PHED and local bodies. The employees from PHED will be transferred to Jal Nigam and new contractual workers would also be hired. Hence, there is also the lurking pitfall of employees and contractors coming under the policies of private companies which often lacks labour regulations and workers' protection rights.

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